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9 UNITED STATES BANKRUPTCY COURT
10 EASTERN DISTRICT OF CALIFORNIA
11 SACRAMENTO DIVISION
12

13 In re:
14 CITY OF STOCKTON, CALIFORNIA,
15 Debtor.

Case No. 2012-32118

D.C. No. JD-1

Chapter 9

16 **DECLARATION OF ANN GOODRICH**
17 **IN SUPPORT OF CITY OF**
18 **STOCKTON'S OPPOSITION TO**
19 **FRANKLIN'S MOTION FOR STAY**
20 **PENDING APPEAL OF**
21 **CONFIRMATION ORDER**

Date: December 10, 2014

Time: 11:00 a.m.

Dept: C, Courtroom 35

Judge: Hon. Christopher M. Klein

1 I, Ann Goodrich, hereby declare:

2 1. I am a consultant and labor relations project manager retained by the City of
3 Stockton, California (the "City" or "Stockton") since January 9, 2011. In my capacity as the
4 City's labor relations project manager, I have coordinated the City's labor negotiations with all of
5 its employee groups and prepared recommendations for the City regarding its negotiations. I
6 make this declaration in support of the City's Opposition To Franklin's Motion For Stay Pending
7 Appeal Of Confirmation Order.

8 2. I am affiliated with the law firm of Renne Sloan Holtzman Sakai LLP as a
9 Managing Consultant. Before this affiliation, I was an independent human resources and labor
10 relations consultant. I also served for 29 years as Human Resources Director in the counties of El
11 Dorado, Sonoma, and Santa Barbara. In addition to my work for Stockton, I am currently serving
12 as the interim Human Resources director of the City of Oxnard, California.

13 3. In my role with the City, I have witnessed first-hand the difficulties the ongoing
14 bankruptcy case has had on the ability of the City to hire and retain key employees and safety
15 officers. I have also witnessed first-hand the difficulties in negotiating union contracts with the
16 City's nine labor unions amongst the swirling uncertainty resulting from the City's bankruptcy
17 case. As set forth in more detail below, it is very likely that these difficulties and challenges will
18 continue and possibly worsen if the City is not now able to exit bankruptcy and move forward
19 with its plan to revitalize the City of Stockton.

20 Impact Of Stay Being Granted - Recruitment

21 4. Delaying the City's exit from bankruptcy will very likely continue to negatively
22 impact the City's ability to recruit new employees. The ongoing stigma and uncertainty of
23 Stockton's continuing bankruptcy almost certainly has a very negative impact on the views of
24 candidates about Stockton's desirability as an employer.

25 5. The City competes with other employers when trying to hire all types of
26 employees, with the competition greatest for higher skilled positions, such as managers,
27 professional licensed staff, and police officers. Other agencies are recovering from the recession
28 and are raising salaries again. Other agencies do not suffer from the uncertainty surrounding

1 Stockton's ability to continue to retain its employees and remain competitive on compensation
2 and benefits. While Stockton's compensation was above the labor market prior to bankruptcy, it
3 is now below the labor market. This is due both to cuts the City made to its compensation and
4 benefits as well as to the increases other agencies made to their compensation. Because of its
5 below-market compensation, the City begins at a disadvantage in recruiting employees. The
6 uncertainty of the bankruptcy case is another level of disadvantage in recruitment and retention of
7 employees. A delay in the City's exit from bankruptcy would prolong this uncertainty, leaving
8 the cloud of bankruptcy as a challenge for the City to overcome when recruiting necessary staff.
9 The appeal has already led to headlines like that of the recent Sacramento Bee article attached
10 hereto as Exhibit A: **"Appeal Threatens Stockton Bankruptcy Ruling on Pensions."**

11 Headlines like this further stigmatize the City and hurt its ability to recruit employees.

12 6. The continuing uncertainty created by remaining in bankruptcy would particularly
13 hurt the City's recruitment of police officers. Police officers, more so than other employees, tend
14 to choose agencies to be their employers for the entirety of their careers. They tend to stay with
15 the same organization and promote up internally, in contrast with other occupations where people
16 move from one organization to another for promotions and advancements. Because of this
17 tendency, police officers evaluate the long-term viability of a potential employer not only by its
18 compensation and pensions benefits, but also as to the ability of the organization to fund up-to-
19 date technology and to fund modern and advanced equipment. With so many other agencies
20 actively hiring as they emerge from the recession, Stockton has a great deal of competition for
21 police officers. It is a more positive "sell" to potential employees to say that the City has had its
22 problems, but is on a path to correcting them and is moving forward, as it could if it were to
23 emerge from bankruptcy, than to say that the City is still in bankruptcy for another year, or two
24 years, or even three years, while an appeal continues the current state of uncertainty and doubt.

25 7. Stockton still has a lot of work to do to improve public services, and quality
26 managers and professional staff members are key to this effort. Many, if not most, of these types
27 of candidates are already employed in other agencies and are already invested in their career
28 progression in those agencies and the pension plan of those agencies. The continuing uncertainty

1 that exists as a result of the bankruptcy case will most likely discourage candidates from taking a
2 chance with Stockton, where they might think they would be jeopardizing their futures.

3 Obviously, such fears and doubts are far greater if Stockton continues in bankruptcy than if it
4 were to emerge from its bankruptcy case.

5 Impact Of Stay Being Granted - Retention

6 8. City employees have had their salaries and benefits cut, have seen their colleagues
7 get laid off, and have been asked to do even more work than before with outdated equipment
8 while the City struggled through bankruptcy. The threat of losing pensions has been hanging
9 over the heads of employees for over two years, and that threat, combined with the stigma of
10 bankruptcy, is a constant source of concern in retaining employees. Turnover of key staff
11 continues to be a concern. The October 30, 2014, ruling approving the City's plan of adjustment
12 encouraged City employees and gave them hope that the relief they have been so eagerly
13 awaiting—getting out of bankruptcy—had finally arrived. A stay could crush these hopes and
14 cause employees severe disappointment by prolonging the uncertainty resulting from the
15 bankruptcy case. It is likely that a number of employees will capitulate and decide to look
16 elsewhere for more stable and certain career opportunities. The most qualified employees will
17 likely have success in leaving their City positions and the less qualified employees will not, and
18 will remain with the City.

19 9. Delaying the City's exit from bankruptcy could demoralize a workforce that has
20 sacrificed considerably in the last five years. It may be the final push that causes employees to
21 look elsewhere, to agencies with less drama and more security for their future employment.

22 Impact Of Stay Being Granted – Labor Negotiations

23 10. Years of hardship, including compensation reductions, cuts to and then complete
24 elimination of retiree medical benefits, and two and a half years of a bankruptcy where their
25 pensions have been threatened, has put a strain on the relationships between the City and its
26 unions. Contracts have been continued on an annual basis with little change because neither party
27 feels that it can make long-term commitments while the uncertainty of the City's bankruptcy case
28 remains. As a result of the annual renewals, the City continues to expend more resources in

1 contract negotiations than in more certain times when the parties have the confidence in the City's
2 ability to perform its commitments and more confidence in the City's future and are comfortable
3 negotiating two or three year contracts.

4 11. A delay in exiting bankruptcy and the ongoing instability created by the
5 bankruptcy proceedings would continue to strain collective bargaining and would likely make the
6 unions wonder if the City will be able to honor its commitments. Instead of looking forward and
7 working on a positive future together, both parties are put in a position of trying to protect their
8 positions with the unknown outcome of the bankruptcy making them each take defensive
9 positions.

10 Executed this 24th day of November 2014, at Santa Barbara, California. I declare under
11 penalty of perjury under the laws of the State of California and the United States of America that
12 the foregoing is true and correct.

13
14 
Ann Goodrich

Exhibit A

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Appeal threatens Stockton bankruptcy ruling on pensions

BY DALE KASLER - DKASLER@SACBEE.COM

11/14/2014 9:26 AM | Updated: 11/14/2014 9:17 PM



Pedestrians cross a street near the Bank of Stockton in Stockton, Calif. GOSIA WOZNIACKA / AP

Taking aim again at government pensions, an angry creditor in Stockton's bankruptcy case is appealing a pivotal court ruling that preserved the city's retirement plans.

Franklin Templeton Investments filed a notice of appeal this week, challenging the Oct. 30 decision that approved Stockton's reorganization plan. The plan keeps the pensions fully funded but pays Franklin, which loaned the city \$36 million during better economic times, just 12 cents on the dollar.

The case in U.S. Bankruptcy Court in Sacramento has been a major legal test of the sanctity of public pensions in California. City officials and CalPERS, which runs the Stockton retirement program, fought hard to keep their relationship intact in the face of the challenge from Franklin. Stockton pays CalPERS about \$29 million a year, a figure that is growing.

On Oct. 1, U.S. Bankruptcy Judge Christopher Klein ruled that Stockton had the right to slash its payments to CalPERS, a decision that sent shock waves through the pension industry and had public employee unions scrambling. A month later, though, the judge approved the Stockton reorganization plan even though it leaves the city's pensions untouched.

City officials and CalPERS had argued that even a partial reduction in Stockton's pension contributions would have ruinous effects. A complicated mechanism would be set in motion that would have reduced retirement benefits by 60 percent, and Stockton officials predicted a mass exodus by police officers and other city workers.

"It would be no simple task to go back and redo the pensions," Klein acknowledged.

Franklin argued there was no proof that city workers would quit in droves. Besides, the investment firm said, it was simply unfair to pay CalPERS in full while giving Franklin such a meager repayment on its debt.

Rebuffed at the lower court level, Franklin is taking its case to the 9th Circuit Bankruptcy Appellate Panel in Pasadena.

"We intend to continue to fight for a fair and equitable recovery for our fund investors," said Franklin spokeswoman Stacey Coleman by email. She added that Franklin believes Klein "made many factual and legal errors in concluding that the Stockton plan satisfies the applicable requirements of the Bankruptcy Code."

Klein's ruling would allow the city to exit bankruptcy, more than two years after it filed for Chapter 9 municipal bankruptcy. The Franklin appeal keeps the case going.

Stockton City Manager Kurt Wilson, in a prepared statement, said the appeal isn't surprising. "We faced an unprecedented level of opposition because we made unprecedented levels of difficult decisions," he said.

CalPERS Chief Executive Anne Stausboll, also in a prepared statement, defended Klein's ruling, "which protected the pension promises made to (Stockton's) public employees and allows the city and its employees to finally move forward."

Call The Bee's Dale Kasler, (916) 321-1066 (tel:(916)%20321-1066). Follow him on Twitter @dakasler (<https://twitter.com/dakasler>).

